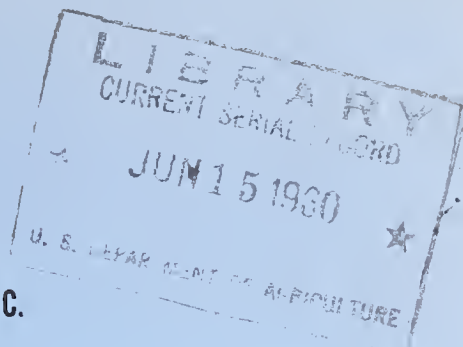


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U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.



REGIONAL GRAIN COOPERATIVES 1958-59 *21st Annual Report*

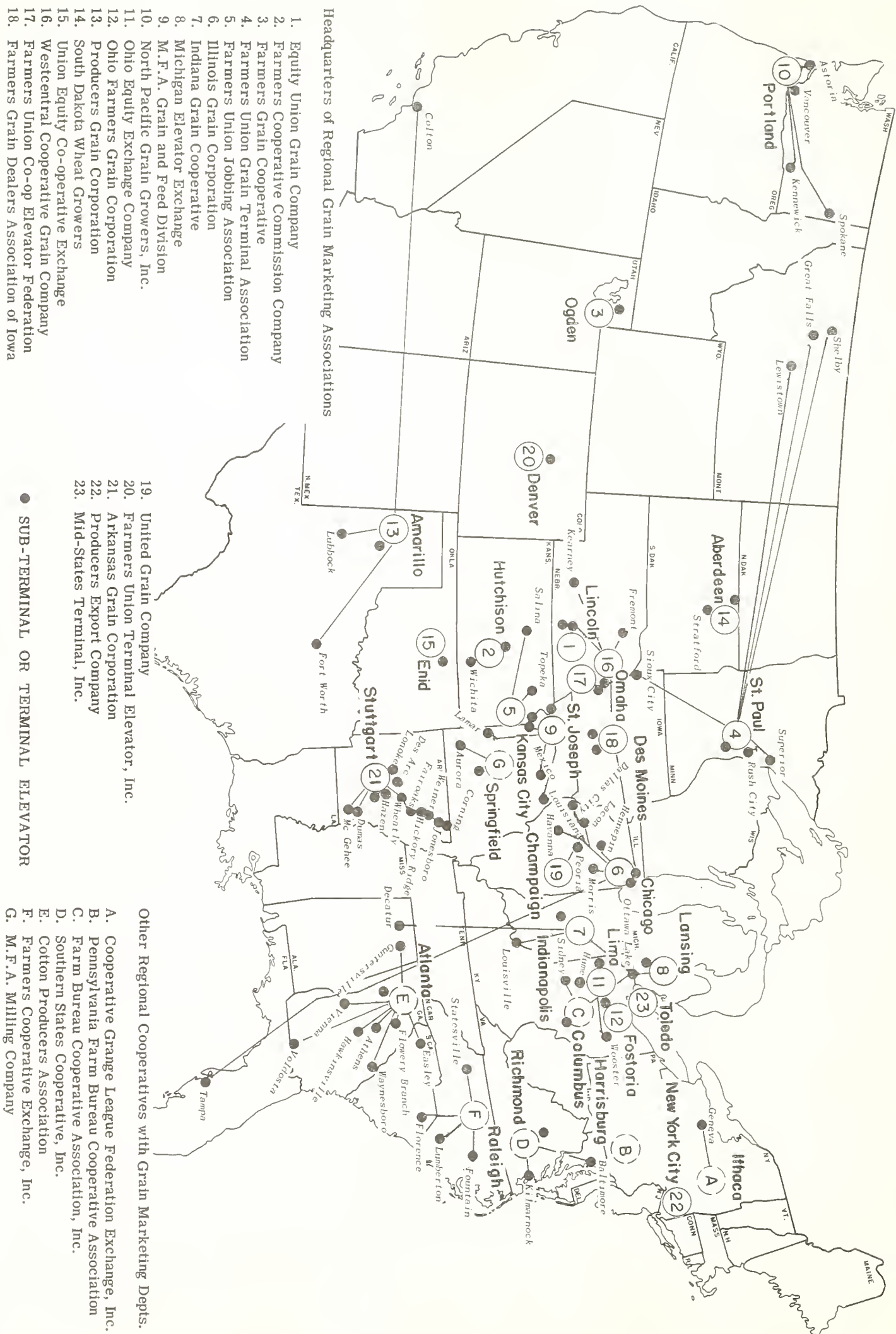
By
Daniel H. McVey,

Distribution of this report is limited to managers and directors of regional grain cooperatives, banks for cooperatives, extension marketing specialists and agricultural economics personnel in State colleges interested in grain marketing.

Service Report 53

June 1960

Figure 1
Location of Regional Grain Marketing Services and Their Sub-terminal and Terminal Elevators, 1960



REGIONAL GRAIN COOPERATIVES
1958-59

By

Daniel H. McVey
Grain Branch
Marketing Division

This report is a continuation of the annual series started in 1940 on the financial condition and operating results of a group of regional grain cooperatives and continued at their request.

This publication covers the 1958-59 season and shows some comparisons for the entire period 1938-39 through 1958-59.

Regional grain cooperatives continue to make every effort to meet the demands of their members by conducting up-to-date grain marketing services at subterminal and terminal markets, (figure 1). They have been rapidly expanding and modernizing elevator facilities to handle and store current reserves and carryover stocks and to merchandise member associations' grain.

With the increased production of livestock in the South and the Southeastern States, these cooperatives are giving more attention to installing storage facilities in these areas to supply grain for feed and to furnish outlets for their own member production.

Regionals have helped members improve their facilities and conduct more efficient grain marketing operations at the local level. Through the National Federation of Grain Cooperatives, grain research programs, activities on advisory committees, radio and television programs, and other media, managements of the regionals are benefiting all grain farmers.

For the past several years, some of the regionals have cosponsored accounting schools for local elevator bookkeepers where students receive valuable training. Several of them have conducted management training conferences and directors' schools.

Several regionals have installed milling and baking laboratories to learn more about the product they sell for their members, and thus encourage farmers to grow the kind of grain that will sell. Others are installing such equipment. Many regionals are also working closely with grain improvement associations in developing new varieties in order to be better able to advise members on the best types of wheat and other grains for the farmers to produce. Thus, by meeting exact milling specifications and feed requirements, farmers can expect better returns and more use for their cash grain. Some also pay premiums for approved varieties and protein content.

Some of them are moving into the feed, seed, and farm supply field. Others are expanding their services along these lines.

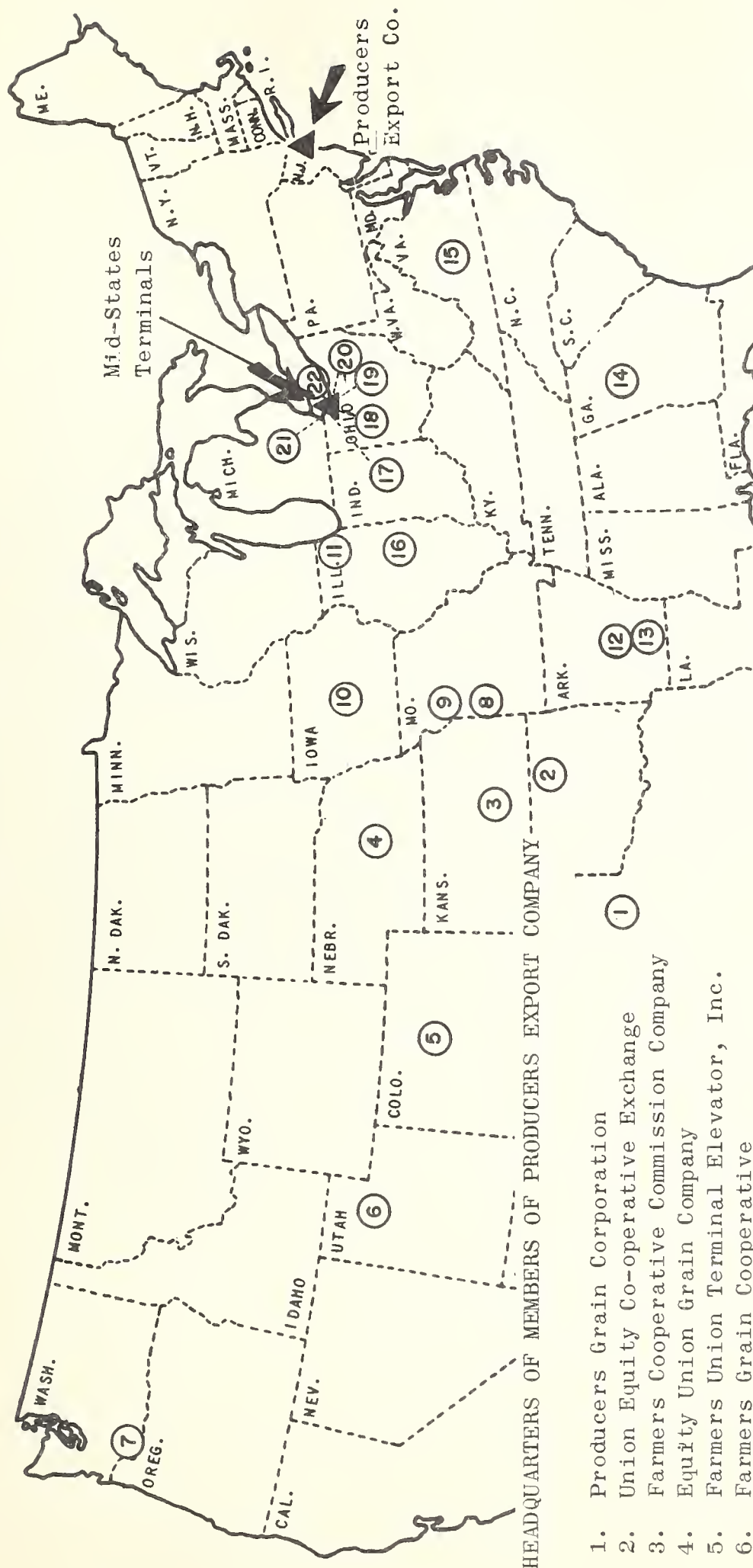
In another effort to improve the bargaining position of cooperative growers in the market place, 19 regionals joined together in 1958 and organized the Producers Export Company with offices in New York City, and are now in the export business. Membership has grown to 22 regionals (figure 2). In 18 months they have exported in excess of 50 million bushels of grain valued at over \$100 million to some 25 countries around the world.

Several of the members of Producers Export have terminal elevators located on water. Recently, North Pacific Grain Growers of Portland, Ore., entered into a lease agreement with the Port Authority of Longview, Wash., to construct and operate a large port elevator. Farmers Union Jobbing Association, Kansas City, Mo., is constructing barge loading facilities on the Missouri River as is West Central Grain Cooperative at Omaha, Nebr.

In addition, the five regional organizations in Ohio, Indiana, and Michigan have organized Mid-States Terminals with headquarters at Toledo, in order to take advantage of cheaper transportation rates afforded by the St. Lawrence Seaway. One of these members (all of them are also members of Producers Export) purchased a terminal elevator on the Seaway at Toledo.

Figure 2.

HEADQUARTER LOCATIONS OF MEMBERS OF PRODUCERS EXPORT COMPANY AND MID-STATES TERMINALS



1. Producers Grain Corporation
2. Union Equity Co-operative Exchange
3. Farmers Cooperative Commission Company
4. Equity Union Grain Company
5. Farmers Union Terminal Elevator, Inc.
6. Farmers Grain Cooperative
7. North Pacific Grain Growers, Inc.
8. Farmers Union Jobbing Association
9. M.F.A. Grain and Feed Division
10. Farmers Grain Dealers Association of Iowa
11. Illinois Grain Corporation
12. Arkansas Grain Growers Cooperative
13. Arkansas Rice Growers Cooperative
14. Cotton Producers Association
15. Southern States Cooperative, Inc.
16. United Grain Company
17. Indiana Grain Cooperative*
18. Ohio Equity Exchange Company*
19. Farm Bureau Cooperative Association*
20. Ohio Farmers Grain Corporation*
21. Michigan Elevator Exchange*
22. Mid-States Terminal, Inc.

* Also members of Mid-States Terminals

Through actions such as these, the bargaining strength of cooperative elevator patrons is increased.

Most of the data in this report are concerned with the 16 regional grain cooperatives on which we have data beginning with their first year of operation in 1938-39. Fourteen other regionals came into being after that date, including a number of regional farm supply cooperatives that have set up grain marketing departments that perform the same functions and services as the grain regionals. Of these 14, 7 are farm supply organizations, and 7 are grain cooperatives.

Figure 1 shows the location of the 23 regional grain cooperatives in operation in 1960, and their subterminal and terminal elevators, and the 7 other regional cooperatives with grain marketing departments. These regionals are operating elevators at 91 market locations. These do not include commission offices where there are no cooperative facilities. About 30 of these locations handle barge grain and by the use of water transportation are making significant savings for their members.

In prior annual reports, most of the data covered only those 16 associations on which we have records since 1938-39. This report contains data on additional associations. Part I, which follows, shows the data on the 16 organizations and preserves the annual series. Part II contains the information on 27 associations for which data are available for 1958-59.

Part I - 16 Regional Grain Cooperatives

Storage capacity of these organizations has been greatly expanded over the years, particularly since 1953, to meet the needs of members.

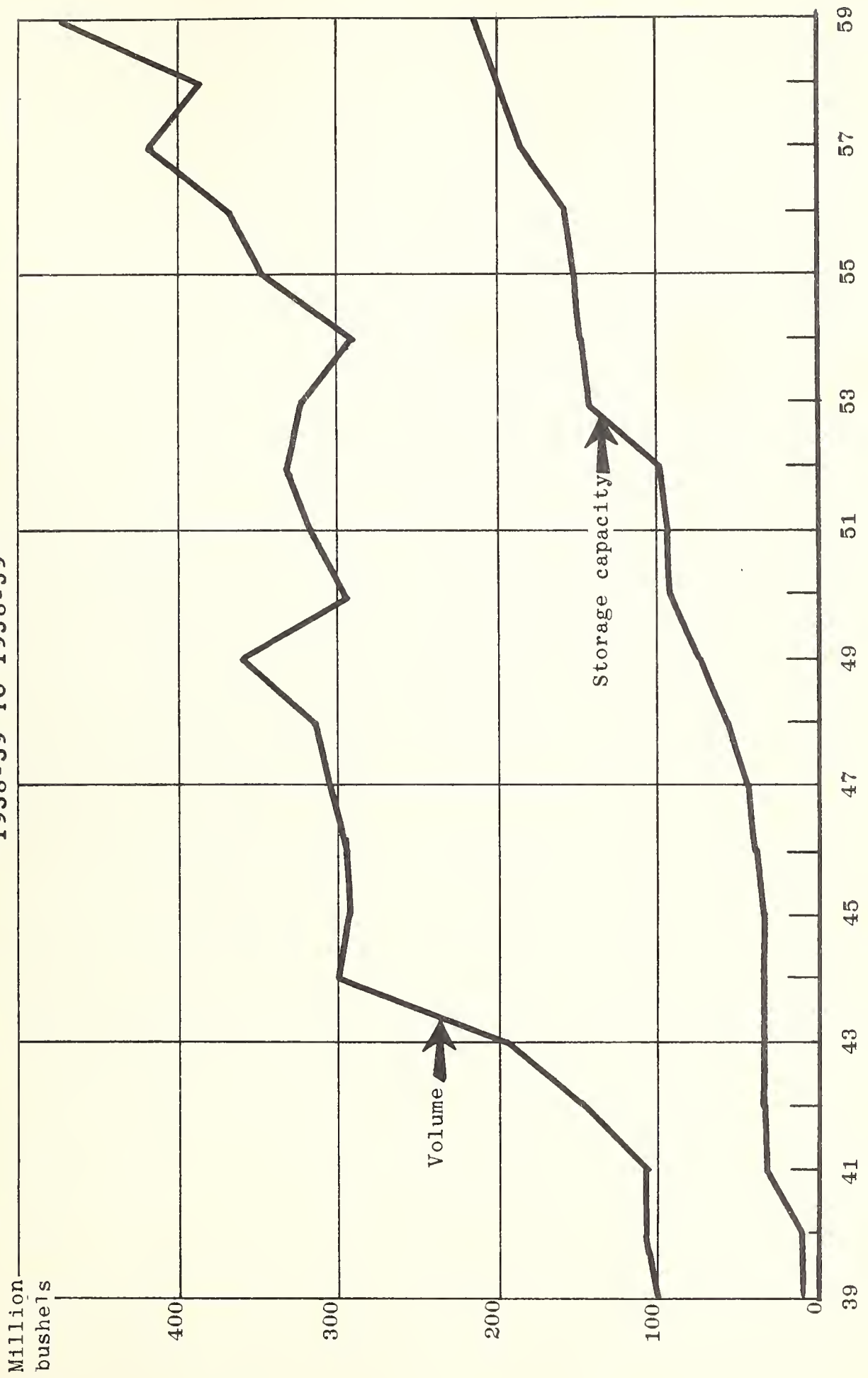
Figure 3 shows this expansion. By harvest time of 1960, the regionals will have nearly 213 million bushels of storage compared with less than 20 million in the early years and 35.5 million bushels at the end of World War II. The greatest expansion occurred in 1954--44 million bushels, but the 28 million bushels in 1958 and the 26 million bushels in the past 2 years also stand out. The capacity has more than doubled since 1953. Practically all of the space in use is owned; very little is now leased.

Since 1944, the combined volume of grain marketed by the 16 regionals has been around 300 million bushels or better with peaks of more than 360 million bushels in 1949 and for each of the last 4 years (figure 3). In 1959, the volume reached nearly 471 million bushels--a record--and 23 percent greater than the year before. Only in 1956-57 has the volume ever exceeded 400 million bushels.

During the 20-year period beginning with 1938-39, these associations handled more than 6 billion bushels of grain. In the last 3 years alone, the volume amounted to 1.3 billion bushels. This does not take into account large quantities of grain handled for the Commodity Credit Corporation.

Since the beginning of the regional grain cooperatives, the total production of the major grains has increased by about 35 percent. The proportion leaving the farm has gone up even faster--in fact more than doubling in the same period. Even so, the regionals have more than kept the pace. In the first 3 years of their operations, they accounted for about 6.5 percent of the grain leaving the farm. Currently they account for 12 to 15 percent of the total. The proportion handled by cooperatives would be higher if C.C.C. volume were included.

Figure 3.
 COMBINED VOLUME AND STORAGE CAPACITY OF 16 REGIONAL GRAIN COOPERATIVES,
 1938-39 TO 1958-59



When taken as a group, these 16 cooperatives have shown a net margin for each of the 21 years. These margins, both in total and on a bushel basis, have shown a general upward trend (figure 4). In the first few years, the combined margin was around \$1 million; for the past 5 years, in excess of \$14.5 million. For 1958-59, the margin amounted to \$19.5 million--a record and more than 14 percent greater than the year before.

The net margin in 1958-59 was equal to a return of just under 24 percent on the book value of fixed assets and a little over 10 percent on all assets.

After 1943-44, the net margin per bushel handled ranged from 2.1 cents in 1944-45 to 4.5 cents in 1957-58. For each of the last 6 years it was around 4 cents (table 1). The only other year in which as much as 4 cents a bushel was realized was in 1946-47. The average net margin of 4 cents a bushel in the last 6 years was about double the gross margin on grain commission sales at terminal markets and indicated a high degree of management efficiency.

It can reasonably be assumed that such margins would not have been realized if handling, merchandising, and storage facilities had not been available (figure 5). Total net margins for the 21-year period were \$188.5 million, with half the amount realized in the last 6 years. The average margin per bushel for the 21 years was 3.12 cents.

As would be expected from the storage capacity and volume data, the combined balance sheet of these organizations has changed greatly over this 21-year period. Current assets in 1939 were \$5.2 million; they have shown almost continual annual growth, and reached a record \$103 million in 1959 (figure 6 and table 2). They increased by more than \$31 million, or 43 percent, in the last year. Two associations accounted for 80 percent of this increase.

Figure 4

COMBINED NET MARGINS OF 16 REGIONAL GRAIN COOPERATIVES 1938-39 TO 1958-59

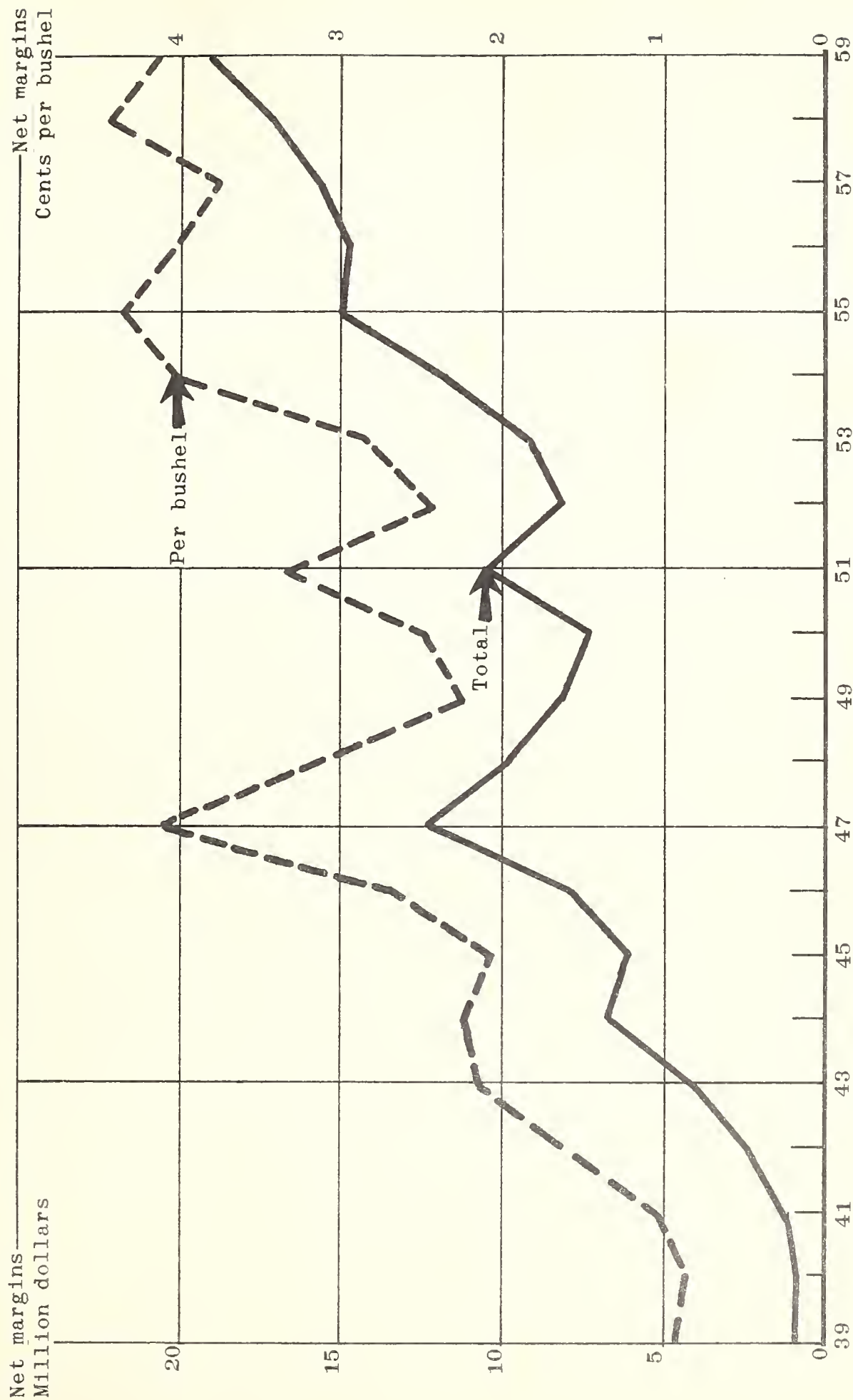


Table 1.--Total grain handled and combined net margins of 16 regional grain cooperatives, 1938-39, 1957-58, and 1958-59

| Fiscal year | Volume of grain handled | Combined net margins | Net margins per bushel |
|-------------|----------------------------|-------------------------|---------------------------|
| | <u>Bushels</u> | <u>Dollars</u> | <u>Cents</u> |
| | <u>1,000</u> | | |
| 1938-39 | 100,123 | \$ 886 | .89 |
| 1957-58 | 383,205 | 17,098 | 4.46 |
| 1958-59 | 470,839 | 19,515 | 4.14 |

Figure 5

COMBINED STORAGE CAPACITY AND NET MARGINS OF 16 REGIONAL GRAIN COOPERATIVES,
1938-39 TO 1958-59

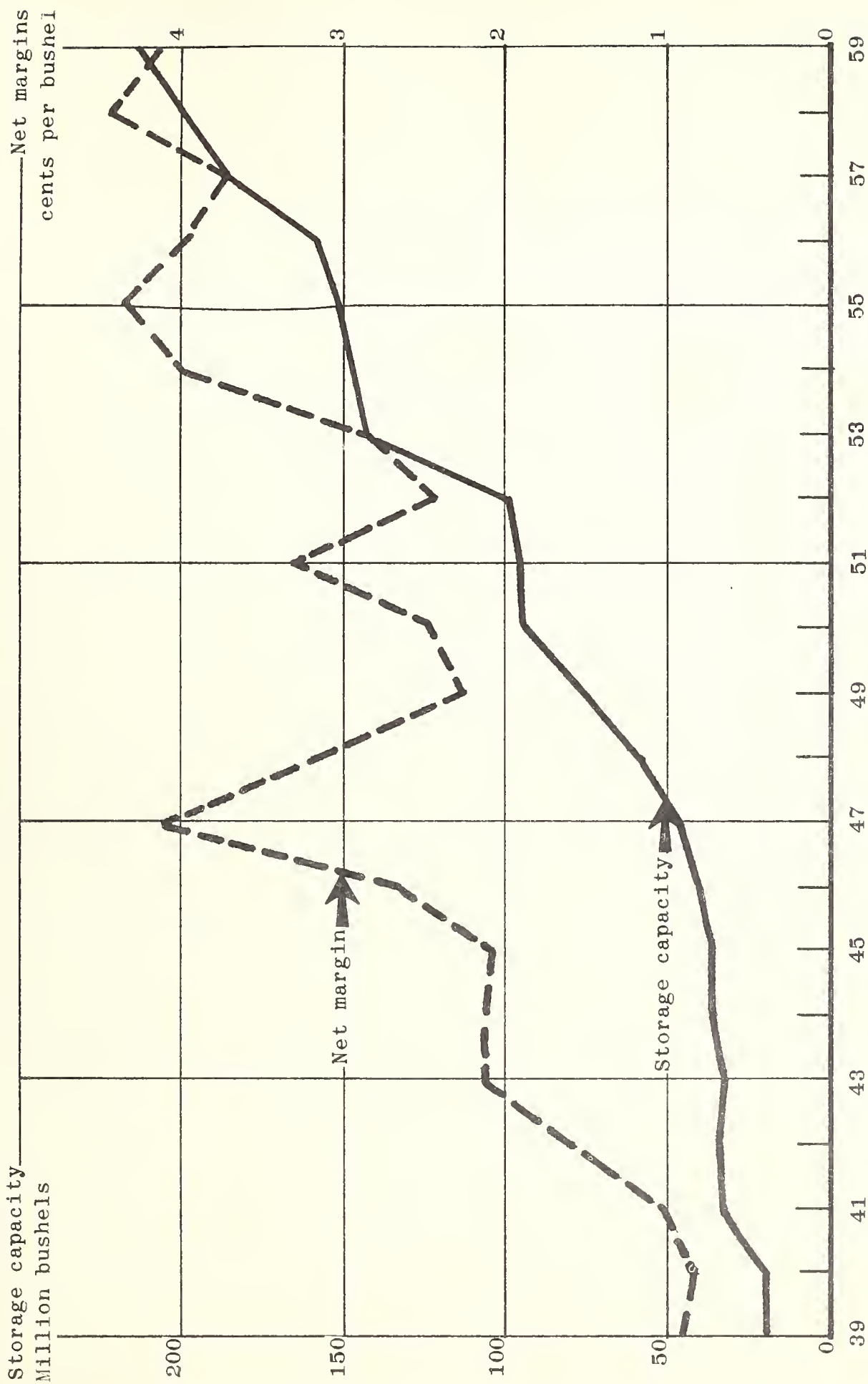


Figure 6

COMBINED ASSETS OF 16 REGIONAL GRAIN COOPERATIVES, 1938-39 TO 1958-59

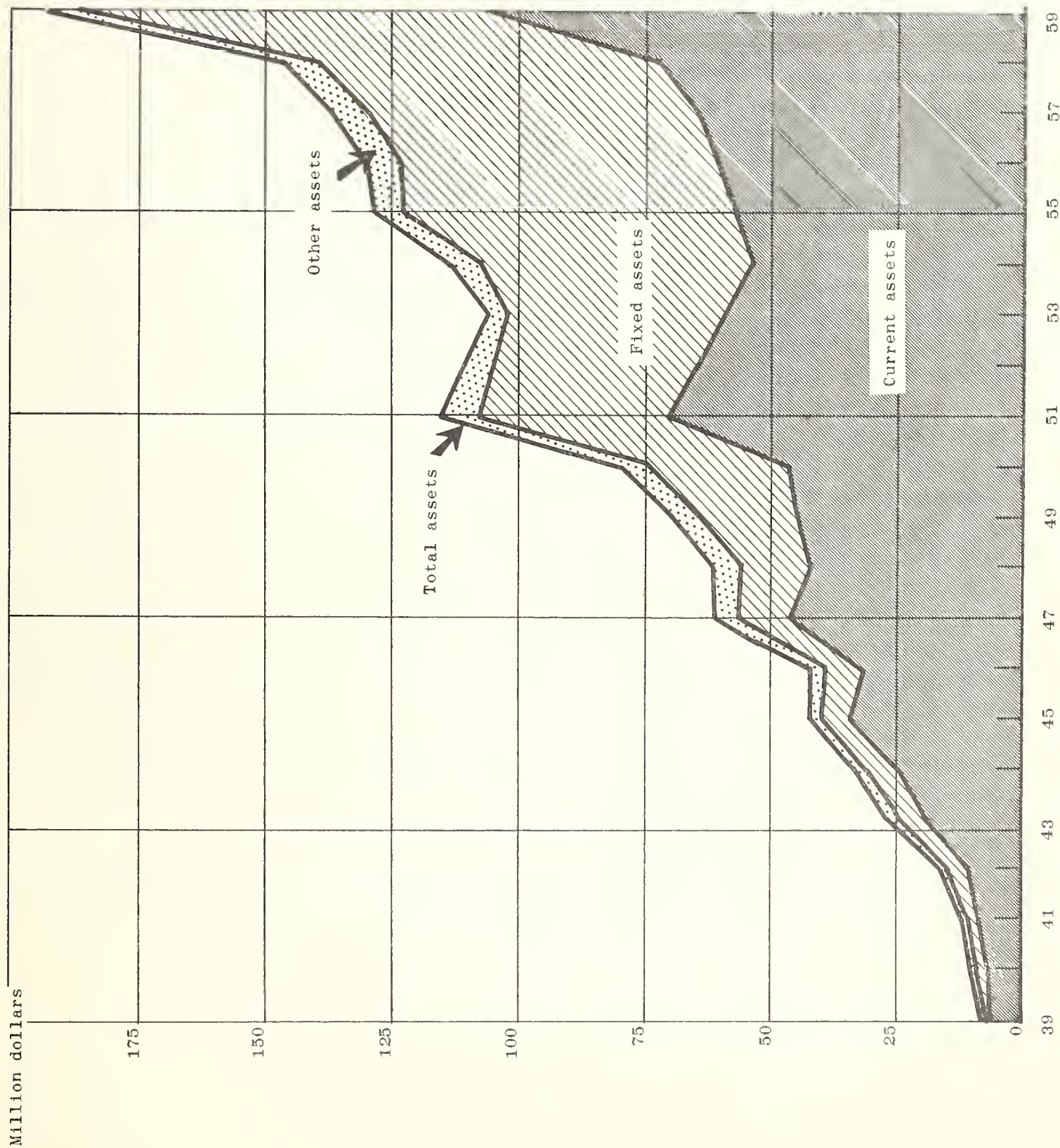


Table 2.--Consolidated balance sheet of 16 regional grain cooperatives at the close of marketing years 1938-39, 1957-58, and 1958-59 1/

| Item | : | 1938-39 | : | 1957-58 | : | 1958-59 |
|---|----|---------|----|--------------|----|---------|
| | : | | : | | : | |
| | | | | <u>1,000</u> | | |
| <u>Assets</u> | | | | | | |
| Current assets: | | | | | | |
| Cash | \$ | 1,160 | \$ | 9,954 | \$ | 12,616 |
| Inventory..... | | 1,117 | | 24,885 | | 38,001 |
| Other current assets..... | | 2,970 | | 37,141 | | 52,748 |
| Total current assets..... | | 5,247 | | 71,980 | | 103,365 |
| Fixed assets (less depreciation reserve)... | | 930 | | 66,658 | | 81,593 |
| Other assets..... | | 466 | | 7,255 | | 7,739 |
| Total assets..... | | 6,643 | | 145,893 | | 192,697 |
| <u>Liabilities and member equities</u> | | | | | | |
| Liabilities: | | | | | | |
| Current <u>2/</u> | | 2,443 | | 26,306 | | 57,023 |
| Deferred..... | | 1,003 | | 13,124 | | 19,414 |
| Total liabilities..... | | 3,446 | | 39,430 | | 76,437 |
| Member equities: | | | | | | |
| Membership capital..... | | 1,555 | | 64,522 | | 74,741 |
| Surplus and reserve..... | | 1,642 | | 41,941 | | 41,519 |
| Total member equities..... | | 3,197 | | 106,463 | | 116,260 |
| Total liabilities and member equities.... | | 6,643 | | 145,893 | | 102,697 |

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

The net value of fixed assets was less than \$1 million in 1939 and didn't reach \$10 million until 1947. There has been a rapid build-up since then, reaching a record \$81.6 million in 1959--an increase of about \$15 million over the year before. Rapid amortization of a number of facilities has held this value down.

Total assets in 1939 were \$6.6 million. They have shown a steady growth, reaching nearly \$193 million in 1959. This is an increase of nearly \$47 million, or 32 percent, over the year before. Four associations accounted for most of this increase.

Although large amounts of capital have been used in the last 6 or 8 years for expanding facilities, member equities in these 16 regionals have continued to rise. In the 21 years, member equities have risen from \$3.2 million to \$116.3 million and have shown an increase every year (table 2 and figure 7). At the close of 1958-59, they were nearly \$10 million, or 9 percent greater than the year before. They have increased more than \$53 million in the last 6 years and currently are equal to 55 percent of the total asset value.

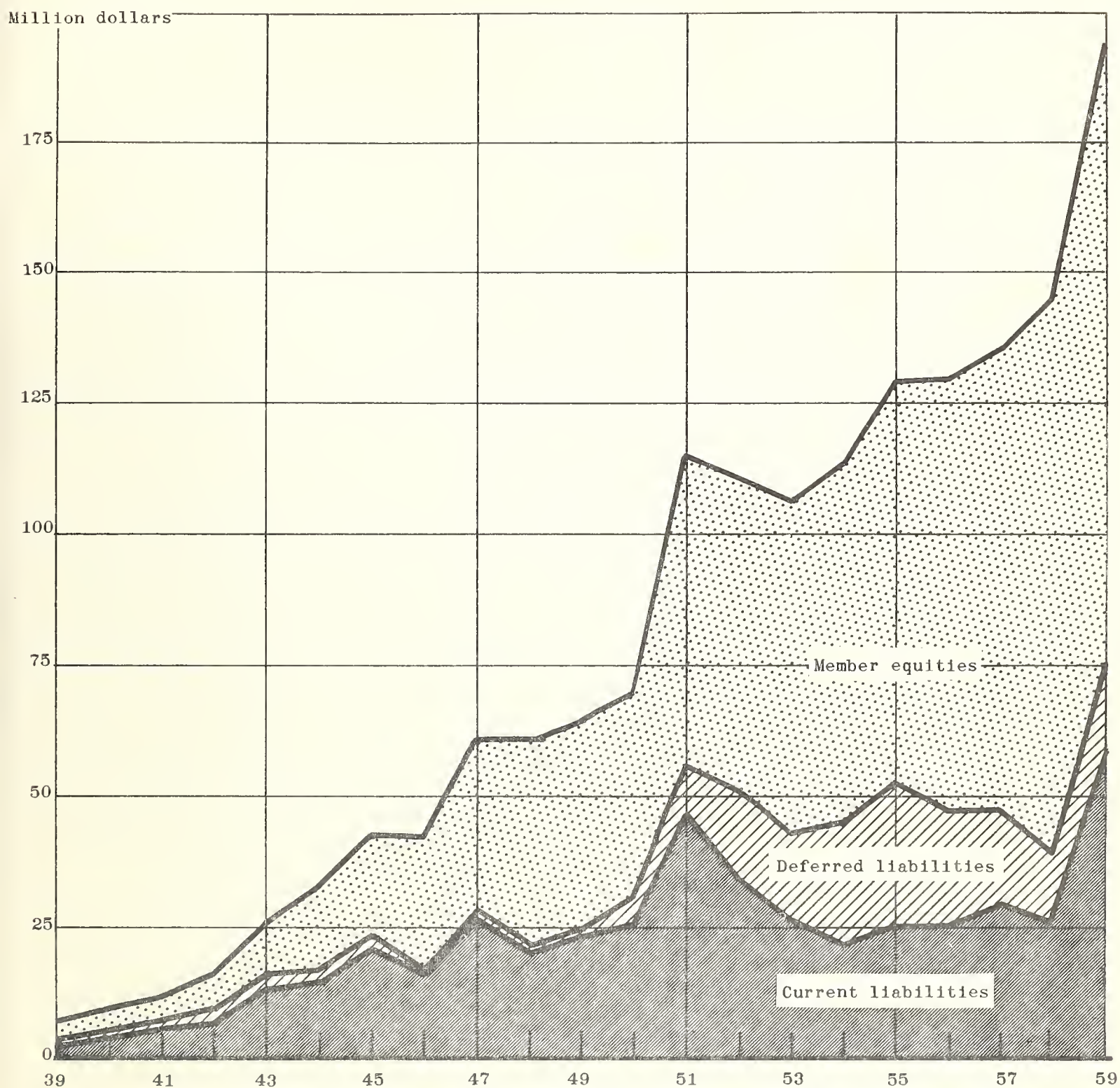
Nearly \$75 million of the equity is in the form of certified capital and a little less than 42 million is in surplus and reserves. This latter category has grown rapidly in the past 5 years and in some organizations is equal to the certified capital.

Annual working capital has shown a steady increase from the beginning and amounted to \$46.3 million in 1959. This may be compared to the \$2.8 million in 1939.

Liabilities increased considerably last year reaching a record total of more than \$76 million, or almost double the amount in 1957-58. Long-term liabilities have fluctuated considerably over the years but have been higher

Figure 7

COMBINED LIABILITIES AND MEMBER EQUITIES OF 16 REGIONAL GRAIN COOPERATIVES,
1938-39 TO 1958-59



in recent years due to the accelerated construction program. At the end of 1958-59, they amounted to \$19.4 million compared to \$1 million in 1938-39 (figure 7). At the end of 1958-59, deferred liabilities were less than 24 percent of the book value of fixed assets.

Most of the recent increase in liabilities has been in the current category. They reached more than \$57 million in 1958-59, or more than double the amount in 1957-58. Currently they comprise 75 percent of the total liabilities. A portion of these current liabilities were patronage dividend payments and interest on stock which had been declared but not disbursed.

Part II - 27 Regional Grain Cooperatives

As mentioned earlier, several regional grain cooperatives have been organized since 1938 including grain marketing departments of some of the regional farm supply cooperatives. Data for 1958-59 on 11 of these organizations have been combined with the data on the original 16 associations to give a more complete picture of regional grain marketing.

These 11 organizations have terminal or subterminal elevators at 58 locations with almost 56 million bushels of storage capacity.

This makes a total of 268 million bushels of storage capacity for the 27 organizations. It is readily apparent that the capacity per association and per elevator is much greater for the 16 associations than for the 11.

Total assets of the 27 associations were more than \$236 million, of which \$129 million were current and \$97 million were fixed (figure 8 and table 3).

Liabilities amounted to \$99 million with nearly \$72 million in the current category. Member equities were more than \$137 million.

Figure 8.

COMBINED ASSETS AND LIABILITIES OF 27 REGIONAL GRAIN COOPERATIVES 1958-59

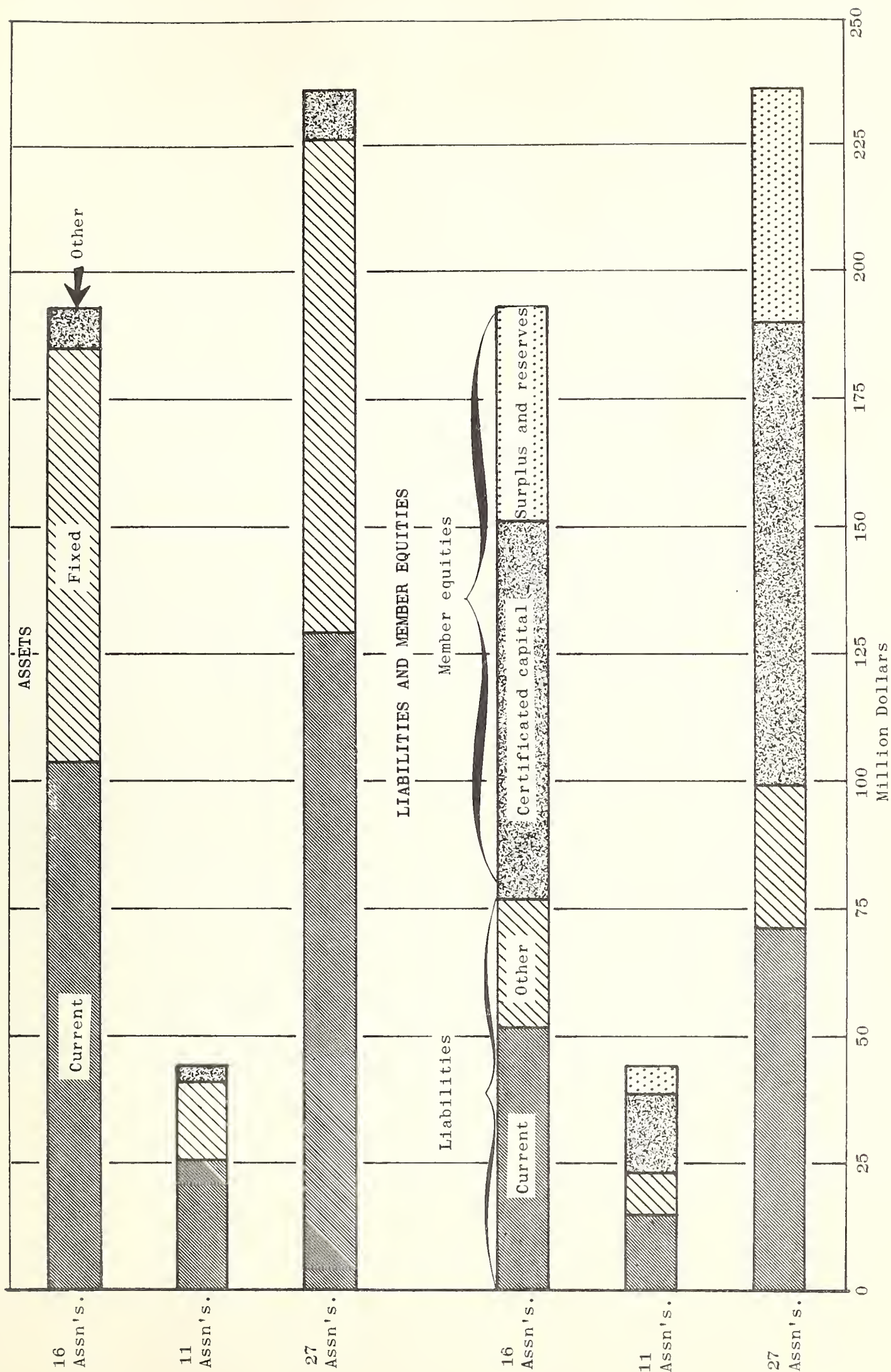


Table 3.--Consolidated balance sheet of 27 regional grain cooperatives at the close of marketing year 1958-59 1/

| Item | : | Amount |
|--|---|----------------|
| | : | |
| | : | |
| | : | \$1,000 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash | | \$ 15,240 |
| Inventory | | 53,075 |
| Other current assets | | <u>60,754</u> |
| Total current assets | | 129,069 |
| Fixed assets (less depreciation reserve) | | 97,286 |
| Other assets | | <u>10,094</u> |
| Total assets | | 236,449 |
| <u>Liabilities and member equities</u> | | |
| Liabilities: | | |
| Current <u>2/</u> | | 71,901 |
| Deferred | | <u>27,389</u> |
| Total liabilities | | 99,290 |
| Member equities: | | |
| Membership capital | | 90,306 |
| Surplus and reserves | | <u>46,853</u> |
| Total member equities | | <u>137,159</u> |
| Total liabilities and member equities | | 236,489 |

1/ Closing dates of fiscal years of individual associations vary within the crop year from November 30 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

The 11 organizations merchandised 113 million bushels of grain in 1958-59 bringing the total for the 27 associations to 584 million bushels (figure 9).

Net margins were \$840,000 for the 11 associations, making a total for the 27 of \$20.3 million or 3.5 cents a bushel.

As a group, the regional grain cooperatives have grown rapidly, are in sound financial condition, and operate efficiently. Through these organizations, farmers have increased their bargaining strength at the local, terminal, and National levels. Quality has been emphasized by paying premiums for approved varieties and protein content. Marketing margins have been reduced through the competition furnished by these organizations.

Managements of these associations still face many important problems. Day-to-day price changes and crop conditions affect operations. Transportation, including the changing rate structure, is vitally important. Government programs and policies and technological changes in farming itself change and affect volume and operations. For example, recent announced reductions in grain storage and handling rates may reduce somewhat the net margins from storage for some of these regionals.^{1/}

Many costs have been increasing and do not decline in proportion to volume decreases. This increases unit operating costs. Quality maintenance or improvement is being stressed more and more. New or additional services must be performed to meet member requirements.

The managers and directors of these regionals have demonstrated their ability to deal with problems during these 21 years. The experience gained should enable them to anticipate and meet future problems as they arise.

^{1/} In the case of a cooperative, net margins are channeled back to the producer, whereas in the case of other firms, high storage rates have benefited the proprietors.

Figure 9.

COMBINED STORAGE CAPACITY, VOLUME AND NET MARGINS
OF 27 REGIONAL GRAIN COOPERATIVES, 1958-59

